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**LOUISIANA PATIENT'S COMPENSATION**  
**FUND OVERSIGHT BOARD**

**ANNUAL FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2012**

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Postlethwaite  
& Netterville

A Professional Accounting Corporation

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of the  
Louisiana Patient's Compensation Fund Oversight Board  
Baton Rouge, Louisiana

We have audited the accompanying statement of net assets of Louisiana Patient's Compensation Fund Oversight Board (the Board) as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Patient's Compensation Fund Oversight Board as of June 30, 2012, and the results of its operations for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2012 on our consideration of the Board's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress for other post-employment benefit plans on pages 3 through 6 and 23, respectively be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Board's financial statements as a whole. The accompanying other supplementary information on page 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Postlithwaite & Nettlesville*

Baton Rouge, Louisiana  
December 21, 2012

**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD**  
Management's Discussion and Analysis  
**JUNE 30, 2012**  
**(UNAUDITED)**

Management's Discussion and Analysis of the Louisiana Patient's Compensation Fund Oversight Board (the Board) financial performance presents a narrative overview and analysis of the Board's financial activities for the year ended June 30, 2012. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the additional information contained in the Board's financial statements.

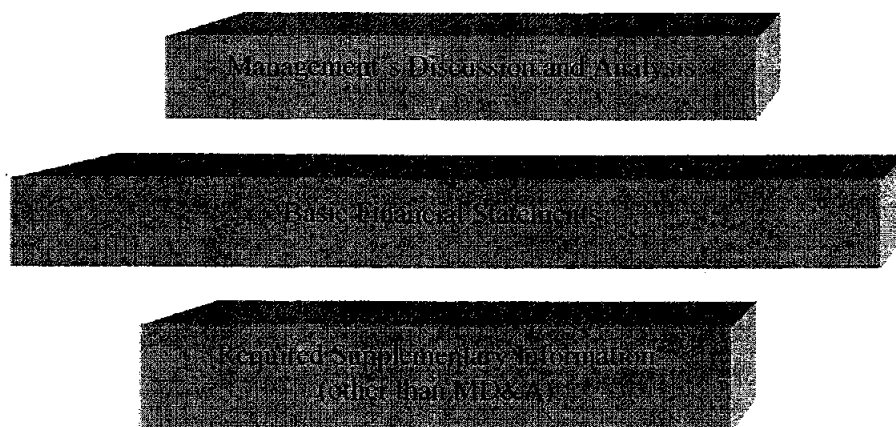
**FINANCIAL HIGHLIGHTS**

The Board's assets consist primarily of cash and high quality fixed income investment portfolio. The Board's liabilities are comprised primarily of estimated loss reserves for medical malpractice benefits for covered healthcare providers.

- The Board was in a deficit financial position with its liabilities exceeding its assets at the close of fiscal year 2012 by \$87,060,000. The deficit reduced \$75,240,000 from the prior year due to operating income and investment income during the year.
- The Board operating revenue decreased from prior year due to changes in composition of participants and decreases in surcharge rates to participants during the year.
- Investment income for the 2012 fiscal year was \$28,533,000 and was favorably impacted by increases in the unrealized market value of the Board's investment portfolio.
- Operating expenses consist primarily of claims and claims expenses incurred during the year. The Board also experienced favorable claim reserve development which reduced claims expense during the year due to updated reserve estimates trending favorably compared to prior year estimates.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The following graphic illustrates the minimum requirements for Special Purpose Governments Engaged in Business-Type Activities established by Governmental Accounting Standards Board Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.



**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD**  
Management's Discussion and Analysis  
**JUNE 30, 2012**  
(UNAUDITED)

These financial statements consist of three sections - Management's Discussion and Analysis (this section), the Basic Financial Statements (including the notes to the financial statements), and Required Supplementary Information.

**Basic Financial Statements**

The basic financial statements present information for the Board as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets presents the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the financial position of the Board is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Board's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The Statement of Cash Flows presents information showing how the Board's cash changed as a result of current year operations. The cash flow statement is prepared using the direct method and includes the reconciliation of operating income(loss) to net cash provided(used) by operating activities (indirect method) as required by GASB 34.

**FINANCIAL ANALYSIS OF THE ENTITY**

Condensed Statements of Net Assets  
as of June 30, 2012 and 2011  
(in thousands)

	2012	2011
Cash and invested assets	\$ 761,425	\$ 686,324
Other assets	9,951	7,986
Total assets	<u>771,376</u>	<u>694,310</u>
Claims payable	777,000	771,400
Other liabilities	81,436	85,210
Total liabilities	<u>858,436</u>	<u>856,610</u>
Net assets (deficit)	<u>\$ (87,060)</u>	<u>\$ (162,300)</u>

**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD**  
Management's Discussion and Analysis  
**JUNE 30, 2012**  
**(UNAUDITED)**

The Board is in an overall net deficit financial position which decreased by \$75,240,000, or 46.4%, from June 30, 2011 to June 30, 2012. The primary reasons for this improvement is attributed to decreases in claims expenses and increases in surcharge rates and investment earnings during the 2012 fiscal year. The Board has a stated intention of reducing the net asset (deficit) over a reasonable period of time.

Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets  
for the year ended June 30, 2012  
(in thousands)

Operating revenues	\$ 165,609
Operating expenses	<u>118,902</u>
Operating income	46,707
Non-operating investment income	<u>28,533</u>
Income before transfers	<u>75,240</u>
Transfers out	<u>-</u>
Net increase in net assets	<u><u>\$ 75,240</u></u>

The Board total revenues consisted primarily of surcharge revenues from enrolled participants. During the fiscal year June 30, 2012 surcharge rates charged to participants were decreased for most categories of participants effective September 2, 2011 which contributed to overall decreases in revenue earned. Operating expenses consisting primarily of claims related expenses decreased by \$7,422,000, or 5.9%, during the same period due primarily to favorable development of claims reserve estimates incurred in prior years. Investment income also increased \$17,760,000 from the prior year due primarily to increases in the market values of the Board's investment portfolio.

**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD  
Management's Discussion and Analysis  
JUNE 30, 2012  
(UNAUDITED)**

**Capital Assets**

At the end of fiscal year ended June 30, 2012, the Board had \$20,894 invested in a broad range of capital assets, net of depreciation, including machinery and equipment (see accompanying Table). This amount represents a net decrease (including additions and deductions) of \$7,488, or 26.4%, over last year.

**Debt**

The Board has established estimated reserve liabilities for claims and judgments of \$777,000,000 at June 30, 2012 compared with \$771,400,000 at the end of 2011. These reserve obligations are actuarially estimated using the best information available and are subject to revisions to those estimates.

Other long-term obligations include accrued employee vacation leave and other post employment benefits.

The Board had no bonds and notes outstanding at June 30, 2012 or 2011.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Board's appointed officials considered the following factors and indicators when setting next year's budget, rates, and fees:

- Annual actuarial report recommending rates
- Prior year budget and actual results
- Anticipated changes in authorized benefit costs

The Board approved changes in its surcharge rates to members effective September 2, 2012. These changes are intended to reflect decreases in surcharge rates for hospitals and CRNA facilities and increases for physicians and other participating providers.

The Board expects that next year's results will improve slightly due to decreases in the number of anticipated claims made with the Board.

The Board's investment portfolio is comprised largely of high quality fixed income securities which have appreciated in value in recent years. The investment portfolio is subject to fluctuations in value due to economic conditions and market interest rates which are outside of management's control. The Board is evaluating changes in its investment policies and investment management practices.

**CONTACTING THE LOUISIANA PATIENT'S COMPENSATION FUND OVERSIGHT BOARD  
MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Director, Louisiana Patient's Compensation Fund Oversight Board, Post Office Box 3718, Baton Rouge, Louisiana.



**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD  
STATEMENT OF NET ASSETS  
JUNE 30, 2012**

**Assets**

Cash and cash equivalents (note 2)	\$ 269,644,055
Investments (note 3)	491,703,380
Investments, restricted	77,449
Total cash and invested assets	<u>761,424,884</u>
Receivables (note 4)	9,930,464
Capital assets, net of depreciation (note 5)	20,894
Total assets	<u>\$ 771,376,242</u>

**Liabilities**

Claims payable (note 6)	\$ 777,000,000
Deferred revenues (note 11)	74,078,085
Refunds payable	4,115,016
Accounts payable and accrued wages (note 10)	222,410
Accrued compensated absences (note 11)	248,872
OPEB payable (note 8)	2,771,900
Total liabilities	<u>\$ 858,436,283</u>

**Net Assets (Deficit)**

Invested in capital assets	\$ 20,894
Restricted net assets (note 13)	77,449
Unrestricted (deficit)	<u>(87,158,384)</u>
Total net assets (deficit)	<u>\$ (87,060,041)</u>

See accompanying notes to the financial statements.

**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD  
STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2012**

Operating revenues	
Surcharges	\$ 165,287,702
Licenses, permits, and fees	321,420
Total operating revenues	<u>165,609,122</u>
Operating expenses	
Claims and claims adjustment expenses	114,728,704
Personnel services	3,390,135
Operating services	433,851
Professional services	239,022
Supplies	26,161
Travel	31,262
Capital outlay	34,169
Depreciation	18,939
Total operating expenses	<u>118,902,243</u>
Operating income	<u>46,706,879</u>
Non-operating revenues	
Investment income, net	28,532,940
Total non-operating revenues	<u>28,532,940</u>
Change in net assets	75,239,819
Net assets (deficit), beginning of year	<u>(162,299,860)</u>
Net assets (deficit), end of year	<u>\$ (87,060,041)</u>

See accompanying notes to the financial statements.

**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2012**

Cash flows from operating activities	
Cash received from covered enrollees and customers	\$ 159,066,442
Cash paid for benefit of claimants and service providers	(109,128,704)
Cash paid to suppliers for goods and services	(649,460)
Cash paid to employees for services	(3,161,794)
Net cash provided by operating activities	<u>46,126,484</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(11,451)</u>
Net cash (used) by capital and related financing activities	<u>(11,451)</u>
Cash flows from investing activities	
Purchases of investment securities	(117,454,618)
Proceeds from sale/redemption of investment securities	146,091,609
Interest earned on investment securities	13,288,574
Net cash provided by investing activities	<u>41,925,565</u>
Net increase in cash and cash equivalents	88,040,598
Cash and cash equivalents, beginning of year	<u>181,603,457</u>
Cash and cash equivalents, end of year	<u>\$ 269,644,055</u>

See accompanying notes to the financial statements.

**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2012**

Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 46,706,879
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	18,939
(Increase) in accounts receivable	(2,425,726)
Increase in accounts payable	115,005
(Decrease) in accrued payroll and related benefits	(91,761)
(Decrease) in deferred revenue	(4,208,079)
Increase in accrued compensated absences	12,102
Increase in OPEB payable	308,000
Increase in liability for claims reserve	5,600,000
Increase in other liabilities	91,125
	<hr/>
Net cash provided by operating activities	<u>\$ 46,126,484</u>

See accompanying notes to the financial statements.

**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities and Entity**

The Louisiana Patient's Compensation Fund Oversight Board (the Board) was created by the Louisiana State Legislature under the provisions of Louisiana Revised Statute 40:1299.41 – 40:1299.49, and is domiciled in East Baton Rouge Parish. The Board is governed by a board of nine members representing different classes of health care providers and insurance industry representatives in Louisiana.

The purpose of the Board is to provide affordable medical malpractice coverage to all private health care providers and to provide a certain, stable source of compensation for legitimate injured parties of medical malpractice in the State of Louisiana. The Board levies surcharges on private sector health care providers enrolled with the Board to provide just compensation to patients and healthcare recipients suffering losses, damages, or expenses as a result of professional malpractice by health care providers in the State of Louisiana and the Board's administrative expenses.

In October 2011, a Louisiana constitutional amendment was passed by the voters of Louisiana which, among other things, provided that the funds of the Board are to be private custodial funds which cannot be appropriated by the Louisiana Legislature or purposes other than administering and paying claims of the Board. This law also explicitly provides that the State of Louisiana does not back the Board with its full faith and credit and it is not responsible for any financial obligations of the Board.

**Basis of Presentation**

The accompanying financial statements have been prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and financial reporting standards.

**Reporting Entity**

Governmental Accounting Standards Board (GASB) Statement 14 establishes criteria for determining the governmental reporting entity and component units that should be included within a reporting entity. Under provisions of this Statement, the Board is considered a primary government, since it is a special purpose government that has a separately appointed governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement 14, fiscally independent means that the Board may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges, and issue bonded debt. The Board also has no *component units*, defined by GASB Statement 14 as other legally separate organizations for which the elected Board members are financially accountable. There are no other primary governments with which the Board has a significant relationship. The Board is not a component unit of any other entity.

**Fund Accounting**

All activities of the Board are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred,

**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Fund Accounting** (continued)

and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Basis of Accounting**

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. The Fund applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Since the business of the Fund is essentially that of an insurance company having a business cycle greater than one year, the statements of net assets are not presented in a classified format.

**Operating / Non-Operating Revenues and Expenses**

Operating revenues consist of member surcharges and fees charged as these revenues are generated from the Board's operations and are needed to carry out its purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses which are ancillary to the Board's statutory purpose are classified as non-operating.

The Board assesses a surcharge to enrolled health care providers an amount actuarially estimated for the anticipated covered claims and defense costs of the Board for providing coverage to health care providers. The surcharge rate is evaluated on an annual basis and adjusted based on the approval of the board. Surcharges are recognized as revenue over the term of the coverage agreement as they are earned. Any adjustments to a provider's annual surcharge is considered to be a change in estimate and are recognized in the period they become known. The Board incurs insignificant acquisition costs which are expensed as incurred.

The Board also collects fees for medical review panels and other services which are recognized as revenues as they are collected.

**Cash and Investments**

Cash includes petty cash, demand deposits and certificates of deposit. Prior to August 2011, the Board could deposit funds in a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. Furthermore, the Board could invest in certificates of deposit of state banks organized under Louisiana law and national banks having their principal offices in Louisiana. The Board may invest in securities including United States Treasury obligations, United States government agency obligations, and direct security repurchase agreements, high quality corporate debt securities, or in eligible mutual funds that invest in these securities. Investments are stated at fair value. Effective August 2011, the Board has been granted authority to broaden its investment guidelines and criteria and to employ investment managers (also see Note 3).

**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Capital Assets**

Capital assets are recorded at cost, if purchased or constructed. Assets acquired through contributions are capitalized at their estimated fair value, if available, or at estimated fair value or cost to construct at the date of the contribution. Furniture and equipment includes all items valued over \$5,000. Assets are depreciated using the straight-line method over the useful lives of the assets as follows:

	<u>Years</u>
Automobiles	5
Data processing equipment	5
Furniture and equipment	10
Buildings	40

**Compensated Absences**

Employees earn and accumulate annual and sick leave at various rates depending on their years of service. The amount of annual and sick leave that may be accumulated by each employee is unlimited. Upon termination, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay at the time of termination. Upon retirement, unused annual leave in excess of 300 hours plus unused sick leave is used to compute retirement benefits. Compensated absences are computed in accordance with GASB Codification Section C60, and are recognized as an expense and liability in the financial statements when incurred.

Employees who are considered having non-exempt status according to the guidelines contained in the Fair Labor Standards Act may be paid for compensatory leave earned. Upon termination or transfer, an employee will be paid for any time and one-half compensatory leave earned and may or may not be paid for any straight hour-for-hour compensatory leave earned. Compensation paid will be based on the employee's hourly rate of pay at termination or transfer. Compensatory leave is computed in accordance with GASB Codification Section C60.105, and is recognized as an expense and liability in the financial statements when incurred.

**Unpaid Claims Liability**

The Board provides medical malpractice excess coverage for claims incurred during the period of coverage provided to members. Coverage can be obtained from the Board on a claims-made or occurrence basis and to cover tail obligations. The Board establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved and the nature and severity of the claimed loss and damages asserted. Because ultimate claims costs depend on complex factors such as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount, particularly for coverage such as medical malpractice liability. Claims liabilities are recomputed annually using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed on actual historical data that reflects past inflation, trends in the commercial medical malpractice insurance industry, and on other factors that are considered to be appropriate modifiers of past experience.

**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Unpaid Claims Liability** (continued)

Adjustments to claims liabilities are charged or credited to claims expense in the periods in which they become known and are considered changes in estimates. The carrying amount of liabilities for claims losses and claims expense are discounted to present value in the financial statements.

**Income Taxes**

The Board believes its activities are exempt from federal income taxes under Section 115(1) of the Internal Revenue Code as the Board was created to carry out essential functions for the State of Louisiana. Management is continuing to evaluate recent legislative changes (previously described) and potential changes in how the Board's administrative and operational activities are carried out to determine if these recent changes impact the Board's tax exempt status. A change in the Board's status as exempt from federal income taxes could have a significant impact on the Board's financial operations.

**Net Assets (Deficit)**

Net assets comprise the various net earnings from operation, non-operating revenues, expenses, and contributions of capital. Net assets are classified in the following three components:

Invested in capital assets – Consists of all capital assets, net of accumulated depreciation.

Restricted net assets – Consists of external constraints placed on net assets use imposed by law through enabling legislation.

Unrestricted net assets – Consists of all other net assets that are not included in the other categories previously mentioned. See Note 13.

**Concentrations of Risk**

The Board's operations and covered malpractice risks are located only in the state of Louisiana. Accordingly, the Board's revenues and enrollee base are concentrated with healthcare providers operating in Louisiana. Covered benefit obligations due to claimants and beneficiaries are also concentrated to individuals in the state of Louisiana which are impacted by Louisiana legal requirements and judicial decisions.

**Use of Estimates**

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its claim reserve liabilities, fair values of investments and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.



**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 2 – CASH AND CASH EQUIVALENTS**

At June 30, 2012, the Board had deposits in bank accounts (book balances) totaling \$1,464,613, and deposits in the Louisiana State Treasury totaling \$268,179,442.

Deposits are stated at cost, which approximates market. Under state law, these deposits in bank accounts (or the resulting bank balances) must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent banks. The fair value of the pledged securities plus the federal security must at all times equal the amount on deposit with the fiscal agents. At June 30, 2012, the Board has \$7,884,266 in deposits (collected bank balances) that were 100 percent insured or collateralized with securities held by the Board or its agent in the Board's name.

**NOTE 3 – INVESTMENTS**

Through June 30, 2012, the Board maintained its investment accounts as authorized by Louisiana Revised Statute 49:327(B)(5). The Board's investment portfolio is actively managed by the Louisiana State Treasurer's Office (STO) under the oversight of the Board. The Board's investments were held in custodial accounts at a bank trust department in an account for the Board as well as in pooled investment accounts held by and in the name of the STO. Effective August 2011, the Board has been granted authority to broaden its investment guidelines and criteria and to employ investment managers. Management is evaluating these options and may further diversify certain aspects of the Board's investment portfolio and expand investment management and custodial arrangements.

The Board's investments are stated at fair value as required by GASB 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*.

<u>Type of Investment</u>	<u>Fair Value</u>
U. S. Government obligations	\$ 95,143,585
U. S. Agency obligations	180,629,552
Corporate bonds	185,839,686
LA State Treasury Investment Pool	30,090,557
Total Investments	<u>\$ 491,703,380</u>

Net investment income for the year ended June 30, 2012 consists of the following:

Interest income	\$ 12,139,189
Realized gains – net	349,151
Unrealized gains arising during the year - net	16,044,600
Total	<u>\$ 28,532,940</u>

This section describes the various types of investment related risks and the Board's exposure to each type.

**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 3 – INVESTMENTS** (continued)

**Credit Risk**

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a tool with which to assess credit risk on debt obligations. U.S. Government debt securities are not required to be rated. The following table is provided for use in assessing the Board's exposure to credit risk, regardless of type of security, aggregated by credit quality rating as of June 30, 2012:

<u>Rating Agency</u>	<u>Rating</u>	<u>Fair Value</u>
Standard & Poor's	A	\$ 53,855,485
Standard & Poor's	AA	264,346,557
Standard & Poor's	AAA	46,197,276
Standard & Poor's	BBB	2,069,920
LA State Treasury Investment Pool	Unrated	30,090,557
U. S. Government Securities	Unrated	95,143,585
		<u>\$ 491,703,380</u>

**Interest Rate Risk**

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the debt investments and breakdown of maturity in years for each debt investment type as of June 30, 2012:

<u>Type of Debt Investment</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>Greater Than 10</u>
US Government obligations	\$95,143,585	\$ 3,042,540	\$ 80,531,545	\$ 11,569,500	
US Agency obligations	180,629,552	6,170,400	84,226,642	90,232,510	
Corporate bonds	185,839,686	6,034,480	93,590,863	86,214,343	
Louisiana State Treasury Investment Pool	30,090,557	30,090,557	-	-	
<b>Total</b>	<b><u>\$491,703,380</u></b>	<b><u>\$ 45,337,977</u></b>	<b><u>\$258,349,050</u></b>	<b><u>\$188,016,353</u></b>	<b><u>NONE</u></b>

**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 3 – INVESTMENTS** (continued)

**Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Board will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the Board, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Board's name.

The Board's maintains \$461.6 million of its investments in custodial accounts at a bank trust department in an account for the Board. The remainder of the Board's investments are held in pooled investment accounts by and in the name of the STO.

**NOTE 4 – RECEIVABLES**

At June 30, 2012, the Board had receivables totaling \$9,930,464 comprised of the following:

Interest receivable	\$ 2,624,713
Surcharges receivable	7,305,751
Total receivable	<u>\$ 9,930,464</u>

The Board generally receives surcharges collected by the healthcare provider's primary insurance carrier which are remitted to the Board. The Board also bills and collects certain surcharges directly from healthcare providers. Surcharges receivable represent amounts due from healthcare providers at June 30, 2012. These balances are generally unsecured but collateralized by unearned surcharges as described at Note 11.

**NOTE 5 – CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
Capital Assets Summary:				
Furniture & Equipment	\$ 177,714	\$ 11,451	\$ -	\$ 189,165
Less accumulated depreciation	(149,332)	(18,939)	-	(168,271)
Capital Assets, net	<u>\$ 28,382</u>	<u>\$ (7,488)</u>	<u>\$ -</u>	<u>\$ 20,894</u>

**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 6 – CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The Board establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved and the nature and severity of the claimed loss and damages asserted. Because ultimate claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount, particularly for coverage such as medical malpractice liability. Claims liabilities are recomputed annually using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed on actual historical data that reflects past inflation, trends in the medical malpractice insurance industry, and on other factors that are considered to be appropriate modifiers of past experience. Because of the nature of the medical malpractice losses coverage provided by the Board, the Board is routinely involved in numerous malpractice-related claims and legal actions arising from the normal conduct of business. Management of the Board and its actuarial professionals regularly establish estimated liabilities for reported and unreported contingencies associated with these claims.

The following represents changes in the Board's estimated liability for unpaid claims reserves during the year ended June 30, 2012 (amounts in thousands):

Liability for unpaid claims at beginning of year	\$ 771,400
Net incurred related to:	
Current year	135,973
Prior years	( 21,244)
Total incurred	<u>114,729</u>
Net paid related to:	
Current year	1,410
Prior years	<u>107,719</u>
Total paid	<u>109,129</u>
Liability for unpaid claims at end of year	<u>\$ 777,000</u>

During the year ended June 30, 2012, the Board experienced favorable development of approximately \$21.2 million due to revised estimates of the ultimate costs necessary to satisfy the Board's claims obligations established in prior years. These improved estimates incorporate revised case reserve estimates, changes in trends of the Board's claims activity and overall changes in the commercial medical malpractice insurance industry. In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data, and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise process that reflects significant judgmental factors. Management believes that the aggregate loss reserves at June 30, 2012 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through June 30, 2012 will not vary from the above estimates, and such difference could be significant.

**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 6 – CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY** (continued)

The above claims reserve estimates reported at June 30, 2012 are based on actuarial projections made as of December 31, 2011. The Board's estimated claims reserves have been discounted based on anticipated payout patterns and a discount rate assumption which management expects to approximate the investment earnings over the payout period of the claims obligations. The Board has utilized a discount rate assumption of 3.0% which reduced the above reported claims reserve liability by \$97 million at June 30, 2012.

**NOTE 7 – RETIREMENT SYSTEM**

Substantially all employees of the Board belong to the Louisiana State Employees Retirement System, a single employer defined benefit pension plan. The System is a statewide public employee retirement system and is available to all eligible employees. The System publishes annual financial reports that include detailed historical, financial, and actuarial information.

All full time Board employees are eligible to participate in the System. Benefits vest with 10 years of service. Generally, at retirement age, employees are entitled to annual benefits equal to \$300 plus 2.5% of their highest consecutive 36 months average salary multiplied by their years of credited service, except for members eligible to begin participation in the Defined Benefit Plan (DBP) on or after July 1, 2006. Retirement eligibility for these members is limited to age 60, or thereafter, upon attainment of ten years of creditable service. Final average compensation will be based on the member's average annual earned compensation for the highest 60 consecutive months of employment.

Vested employees eligible to participate before July 1, 2006 are entitled to a retirement benefit, payable monthly for life at (a) any age with 30 years of service, (b) age 55 with 25 years of services, or (c) age 60 with 10 years of service. In addition, vested employees have the option of reduced benefits at any age with 20 years of service. Those hired on or after July 1, 2006 have only a single age option. They cannot retire until age 60 with a minimum of ten years of service.

The System also provides death and disability benefits. Benefits are established or amended by state statute. The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. The report may be obtained by writing to the State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, or by calling (225) 922-0608 or (800) 256-3000.

Members hired before July 1, 2006 are required by state statute to contribute 7.5% of gross salary, while members hired after June 30, 2006 contribute 8% of gross salary. The Board is required to contribute at an actuarially determined rate as required by Revised Statute 11:102. The Board's contribution rate for fiscal years ended June 30, 2012, 2011, and 2010 were 25.6%, 22%, and 18.6%, respectively, of annual covered payroll. The Board's contributions to the System for the years ending June 30, 2012, 2011, and 2010 were \$520,672, \$444,299, and \$360,908, respectively, which are the required contributions for each year.

**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 8 – POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**

**Plan Description**

The Board provides certain continuing health care and life insurance benefits for its eligible retired employees and their beneficiaries through participation in the State of Louisiana's health insurance plan administered by the Office of Group Benefits (OGB), an agent multiple-employer defined benefit plan. Louisiana Revised Statute 42:801-883 assigns the authority to establish and amend the benefit provisions of the plan to the state legislature. The OGB does not issue a stand-alone report; however, OGB is included in the State of Louisiana's Comprehensive Annual Financial Report (CAFR) which may be obtained from the Office of Statewide Reporting and Accounting Policy's website at [www.doa.la.gov/osrap](http://www.doa.la.gov/osrap), by writing to P.O. Box 94095, Baton Rouge, Louisiana 70804-9095, or by calling (225) 342-0708.

**Funding Policy**

Louisiana Revised Statute 42:801-883 assigns the authority to establish and amend the benefit provisions of the plan to the state legislature. Retired plan members and beneficiaries currently receiving benefits are required to contribute specified amounts monthly toward the cost of health insurance premiums. Employees hired before January 1, 2002 pay approximately 25% of the cost of coverage (except single retirees under age 65 pay approximately 25% of the active employee cost). Employees hired on or after January 1, 2002 pay a percentage of the contribution rate based on years of service. The contribution rate ranges from 25% to 81%. Other post-employment benefits (OPEB) administered through the OGB are financed on a pay-as-you-go basis.

**Annual OPEB Cost**

For the 2011/12 fiscal year, the Board's annual OPEB cost (expense) of \$328,700 was equal to the annual required contribution (ARC). The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011/12 fiscal year are:

<u>Fiscal Year</u>	<u>Annual OPEB cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/12	\$ 328,700	0.6%	\$ 2,771,900
6/30/11	\$ 373,800	0.8%	\$ 2,463,900
6/30/10	\$ 487,600	6.3%	\$ 2,093,000

**Funded Status and Funding Progress:** The funded status of the plan as of July 1, 2011 is as follows:

Actuarial accrued liability (AAL)	\$ 3,451,600
Actuarial value of plan assets	None
Unfunded actuarial accrued liability (UAAL)	\$ 3,451,600
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 1,922,000
UAAL as a percentage of covered payroll	157%

**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 8 – POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**  
(continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.0% investment rate of return (net of expenses) and an annual healthcare cost trend rate of 7.5% (pre-medicare) and 9.1% (medicare eligible) initially, reduced by decrements to an ultimate rate of 5.0% (pre-medicare and medicare eligible) and after fifteen years. The unfunded actuarial liability is shown using both a level dollar amount and a level percent of pay over an amortization period of thirty years in developing the annual required contribution.

**NOTE 9 – LEASE AND RENTAL COMMITMENTS**

Lease and rental expenses for the year ended June 30, 2012 totaled \$185,136. The Board has no capital leases.

**NOTE 10 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

At June 30, 2012, the Board had accounts payable and accrued expenses as follows:

Accounts payable	\$ 161,885
Accrued wages payable	60,525
Total payables	<u>\$ 222,410</u>

**NOTE 11 – DEFERRED REVENUES AND REFUNDS PAYABLE**

The Board typically receives surcharge revenues paid by the healthcare providers in advance of the period of coverage provided. The Board recognizes surcharges as revenues over the period of coverage and benefits provided to the healthcare provider and records a deferred revenue liability for the portion of the surcharges collected or due which have not been earned and recognized as revenue. At June 30, 2012, the Board had deferred revenues totaling \$74,078,085 that represent unearned surcharges.

The Board may also receive cancellation notices or other changes in coverage benefits provided to healthcare providers which require the Board to refund previously earned surcharges. The Board recorded an estimated liability for refunds payable of \$4,115,016 at June 30, 2012.

**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

There are claims and suits pending against the Board arising from normal business operations, which in the opinion of management and legal counsel, are either without merit or will not have a material effect on the Board's financial position or results of operations. Management of the Louisiana Patient's Compensation Fund establishes estimated liabilities for reported and unreported contingencies. Management believes that the outcome of claims and any related legal proceedings will be provided for by the estimated liabilities and will not have a material adverse effect on the Board's financial position or results of operations.

**NOTE 13 – NET ASSETS (DEFICIT) AND RESTRICTION BY ENABLING LEGISLATION**

The Board has operated with a net asset deficit for many years and reported a net deficit of \$87,060,041 at June 30, 2012. Due to the nature of the Board's medical malpractice claims reserve liabilities, a substantial portion of the Board's liabilities are expected to come due and payable over an extended period of time. The Board has a stated intention of reducing the net deficit by establishing surcharge rates at levels sufficient to reduce the deficit over a reasonable period of time.

In October 2011, a Louisiana constitutional amendment was passed by the voters of Louisiana which, among other things, provided that the funds of the Board are to be private custodial funds which cannot be appropriated by the Louisiana Legislature for purposes other than administering and paying claims of the Board. This law also explicitly provides that the State of Louisiana does not back the Board with its full faith and credit and it is not responsible for any financial obligations of the Board. Accordingly, the Board's net deficit is expected to only reduced by future surcharges to enrollees, investment income, and management of claims expenses and administrative expense.

Net assets reported on the Statement of Net Assets at June 30, 2012, includes \$77,449 which is restricted by LA Revised Statute 40:1299.46 as seed money for the inactive Louisiana Residual Malpractice Insurance Authority.

**NOTE 14 – SUBSEQUENT EVENTS**

Management has evaluated events through the date that the financial statements were available to be issued, December 21, 2012 and determined that there were no events that required additional disclosure. No events occurring after this date have been considered for inclusion in these financial statements.



## **SUPPLEMENTAL INFORMATION SCHEDULES**

### **SCHEDULE OF FUNDING PROGRESS FOR THE OTHER POSTEMPLOYMENT BENEFIT PLAN**

Information about the other post-employment benefit plan (OPEB) funding progress was prepared in compliance with GASB 45.

### **PER DIEM PAID BOARD MEMBERS**

The schedule of per diem paid to Board members was prepared in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature. Per diem payments are authorized by Louisiana Revised Statute 37:1433. Board members are paid \$75 per day for Board meetings and official business.

**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD  
SCHEDULE OF FUNDING PROGRESS FOR OPEB BENEFITS  
AS OF JUNE 30, 2012**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage Of Covered Payroll
7/1/11	NONE	\$3,451,600	\$3,451,600	0%	\$1,922,000	180%
7/1/10	NONE	\$3,506,700	\$3,506,700	0%	\$1,895,200	185%
7/1/09	NONE	\$4,579,500	\$4,579,500	0%	\$1,911,700	240%

**LOUISIANA PATIENT'S COMPENSATION  
FUND OVERSIGHT BOARD  
SCHEDULE OF PER DIEM PAID BOARD MEMBERS  
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Amount</u>
Patrick C. Breaux	\$ 975
Clark Cosse', III	2,775
Vincent Culotta	2,025
Manuel DePascual	2,550
Joseph Donchess	2,550
Kent Guidry	2,700
James Hritz	2,700
William LaCorte	1,350
Melanie McMullen	2,550
Katharine Rathbun	<u>2,625</u>
 Total	 <u>\$ 22,800</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS**

To the Board of the  
Louisiana Patient's Compensation Fund Oversight Board  
Baton Rouge, Louisiana

We have audited the financial statements of the Louisiana Patient's Compensation Fund Oversight Board (the Board) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 21, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items 2012-1, 2012-2 and 2012-3 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Board's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Board's responses and, accordingly, we express no opinion on them.

This report is intended for the information of the Louisiana Patient's Compensation Fund, management, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Postlethwaite, J. Nethermill*

Baton Rouge, Louisiana  
December 21, 2012

**LOUISIANA PATIENT'S COMPENSATION  
BATON ROUGE, LOUISIANA**

**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2012**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**2012-1 Reconciliation of key balance sheet accounts and supporting information**

<u>Criteria:</u>	Internal control over financial information includes ensuring that policies and procedures exist that include reconciliations and verification of key balance sheet accounts to supporting information and schedules. These procedures should include processes to ensure the accuracy and completeness of data utilized in significant calculations as well as the reasonableness of those calculations.
<u>Condition:</u>	During the audit, we noted that surcharge revenue and claims expense accounts required adjustment due to calculations underlying those accounts being based on inaccurate or incomplete information. We also proposed an adjustment to correctly state an investment purchase that was not settled until subsequent to year end. Accounting tasks such as account reconciliations and data verification play a key role in proving the accuracy and timeliness of accounting data and information included in financial statements.
<u>Cause:</u>	The Board maintains its monthly financial accounting and financial reporting on a cash basis. The Board implemented processes to prepare accrual basis financial statements at its fiscal year end a few years ago and is continuing to refine those processes which includes engaging outside professional service providers to assist management in accumulating and preparing the financial data.
<u>Effect:</u>	Certain financial information underlying the accrual basis calculations was not complete and accurate and required adjustment to properly state the accrual basis financial statements.
<u>Recommendation:</u>	The Board should enhance its accounting processes and practices to better ensure that the accrual basis financial statements are based on complete and accurate data.

***View of Responsible Official and Planned Corrective Action:***

As a result of recent legislation, the Patient's Compensation Fund ("PCF") became an off-budget unit of the State of Louisiana; thus, requiring the Board ("PCFOB") to implement and perform its own accounting processes. In addition, said legislation resulted in the PCFOB now using the accrual accounting method in lieu of the cash method previously used by the PCFOB.

**LOUISIANA PATIENT'S COMPENSATION  
BATON ROUGE, LOUISIANA**

**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2012**

**FINDINGS – FINANCIAL STATEMENT AUDIT (continued)**

**2012-1 Reconciliation of key balance sheet accounts and supporting information (continued)**

The PCFOB will enhance its accounting processes and practices to better ensure that the accrual basis financial statements are based on complete and accurate data. In addition, the PCFOB has hired additional experienced personnel for accounting functions.

**2012-2 Unpaid Claims Liability**

<u>Criteria:</u>	Management should obtain the actuarial projection for unpaid claims liability as close to year end in order to ensure the loss reserves estimates included in the yearend financial statements are based on the best information available.
<u>Condition:</u>	The claims reserve estimates reported at June 30, 2012 are based on estimated actuarial valuations as of December 31, 2011.
<u>Cause:</u>	Management obtains an actuarial loss reserve valuation once a year as of December 31. This actuarial analysis has been traditionally performed in conjunction with the Boards actuarial surcharge rate analysis which is also based on a calendar year analysis.
<u>Effect:</u>	Due to the time lag between the December 31 <sup>st</sup> actuarial reserve valuation analysis and the Board's June 30 <sup>th</sup> financial reporting fiscal year, variances in the ultimate loss estimates may not be based on the most recent available information.
<u>Recommendation:</u>	The Board should consider obtaining an updated actuarial loss reserve valuation analysis as of its June 30 <sup>th</sup> fiscal year end. Alternatively, the Board should develop other financial reporting processes to assess the reasonableness and appropriateness of the claims activity from the December actuarial valuation date to the fiscal year end to assess if the actuarial valuation estimates continue to represent a reasonable estimate of the ultimate costs to satisfy future claims obligations.

***View of Responsible Official and Planned Corrective Action:***

The PCFOB will either obtain updated actuarial loss reserve valuation analysis as of its June 30 fiscal year end or develop other financial reporting processes to assess the reasonableness and appropriateness of the claims activity from the December actuarial valuation date to the fiscal year end to assess if the actuarial valuation estimates represent a reasonable estimate of the ultimate costs to satisfy future claims obligations.

**LOUISIANA PATIENT'S COMPENSATION  
BATON ROUGE, LOUISIANA**

**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2012**

**FINDINGS – FINANCIAL STATEMENT AUDIT (continued)**

**2012-3     Income taxes**

<u>Criteria:</u>	All organizations are required to monitor and obtain documentation of their tax status from the Internal Revenue Service to ensure organizational changes do not impact the tax exempt status of the organization.
<u>Condition:</u>	In October 2011, a Louisiana constitutional amendment was passed by the voters of Louisiana which, among other things, provided that the funds of the Board are to be private custodial funds which cannot be appropriated by the Louisiana Legislature or purposes other than administering and paying claims of the Board. This law also explicitly provides that the State of Louisiana does not back the Board with its full faith and credit and it is not responsible for any financial obligations of the Board.
<u>Cause:</u>	The Board believes its activities continue to be exempt from federal income taxes as the Board was created to carry out essential functions for the State of Louisiana.
<u>Effect:</u>	A change in the Board's status as exempt from federal income taxes could have a significant impact on the Board's financial operations.
<u>Recommendation:</u>	We recommend that the Board consult with its professional advisors knowledgeable in the area of federal tax exemptions to determine if the impact of recent legislative changes, or any other conditions, could impact the tax exempt status of the Board.

***View of Responsible Official and Planned Corrective Action:***

The PCFOB is consulting with professional advisors knowledgeable in the area of federal tax law to determine if it remains exempt from federal income taxes.